HOUSING MARKET OUTLOOK

Québec CMA

Canada Mortgage and Housing Corporation

Date Released: Fall 2007

Several economic and demographic factors to favour the housing market

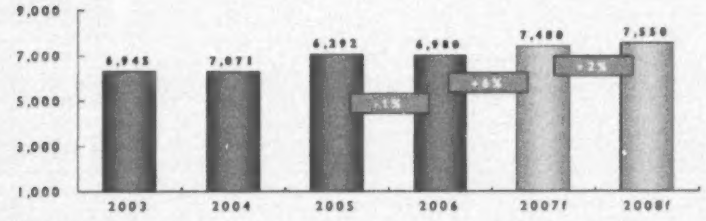
Over the next few years, the Québec census metropolitan area (CMA) economy will likely be quite dynamic. The area, which led the pack in 2006 by posting the strongest economic growth in the province, will again register vigorous economic activity in 2007 and 2008. In fact, despite the sluggishness currently affecting the manufacturing sector as a result of the strong Canadian dollar against the U.S. dollar, certain projects, like the latest relaunch of the Davie shipyard and the recently announced construction of the Rabaska methane tanker terminal, will energize the job market over the coming years.

While residential construction has been slowing down since 2005, investments related to the preparations and infrastructure for Québec City's 400th anniversary celebrations in 2008 continue to stimulate non-residential construction.

Figure 1

Resale Market to Stay Active

MLS® Transactions – Québec CMA



Source: Chambre immobilière de Québec Compilation and forecasts: CMHC
f: Forecasts

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After declining slightly in 2006, employment will grow moderately, but steadily, in 2007 and 2008. Just under 4,000 new jobs will be created each year (for annual gains of around 1 per cent).

On the demographic front, while the growth in the number of households slowed down in the area, the increase in the birth rate observed since the beginning of 2006 will breathe new life into the housing market. In fact, in many cases, the arrival of a child triggers the purchase of a property, and this mini "baby boom" will likely continue to stimulate homeownership over the next few years. In this regard, the new tax provisions for young families will leave them with more money in their pockets, which could benefit the housing market. In fact, from 1997 to 2007, the disposable income of a family with two children under the age of 5 years has risen, in many cases[1], by $10,000 per year ($833 per month). Finally, the pay equity settlement granted by the provincial government will also boost economic activity in the area and, in turn, the housing market. The only shadow on the horizon will come from the slight rise in mortgage rates, which, combined with the rapid increase in home prices, will require additional financial efforts on the part of first-time home buyers, mainly in 2008.

Mortgage rates to edge up in 2008

Moderate inflation and a strong Canadian dollar vis-à-vis the U.S. dollar will help keep mortgage rates flat over the remainder of this year. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while the three- and five-year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

Resale market to stay active in 2007 and 2008

After having slowed down slightly in 2006, the resale market has picked up again. In fact, since the beginning of 2007, significant increases in transactions have been registered, and this trend will continue until early 2008. The combination of several factors account for this strong activity, starting with the economic vigour in the area, which is helping to stimulate sales of properties. In addition, despite the rise in mortgage rates, financing conditions still remain favourable, given the increasing flexibility of mortgage lending options. Lastly, the rise in the number of properties for sale in recent quarters is also boosting sales, as many buyers can more easily find a property to their liking. As well, it is interesting to note that more people are now making use of real estate agents to sell their homes. In fact, the proportion of transactions completed through real estate agents rose from 60 per cent during the first six months of 2006 to 65 per cent in the first two quarters of 2007.

The year 2007 will end with a 6-per-cent increase in sales, as close to 7,400 properties will change hands. In 2008, a smaller gain is expected (+2 per cent). The rise in mortgage rates will start to be felt, which will slightly limit sales.

The supply of properties for sale will also grow, but at a slower pace than in recent years. The strong demand will limit the increase in the stock of homes for sale, which will be replenished less rapidly over the next few quarters.

The growth in prices, although slower, will remain steady. The seller-to-buyer ratio—an indicator of the level of activity on the resale market—will rise slightly over the next few quarters but will remain below the balanced range[2] over the forecast horizon, which will result in price increases above inflation. By the end of 2007, the average price of existing homes in the Québec CMA will reach $172,500, up by 7.5 per cent over 2006. In 2008, the increase will not be as strong, as the seller-to-buyer ratio will move closer to the balanced range, and homes will sell for an average of $181,125, or 5 per cent more than in 2007.

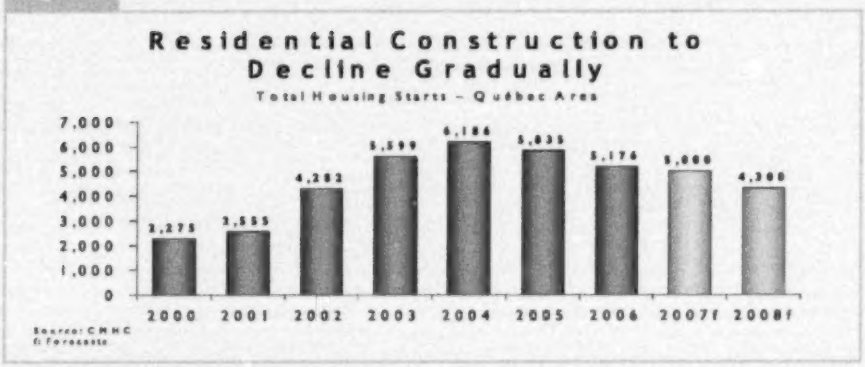
Even if, on the overall market, sellers will be less and less favoured, some market segments will remain relatively active, notably the semi-detached and row home market, where sellers will definitely still have the edge. With seller-to-buyer ratios remaining low and listing periods still short, this segment will also register the greatest price increases. Conversely, the rise in the number of condominiums for sale, which will continue over the next few quarters, will cause this already balanced market to ease even further.

[1] Source: "Les familles, plus riches que jamais," Affaires Plus, July 2007, p. 14.

[2] The balanced range for the seller-to-buyer ratio is between 8 and 10 to 1, indicating a market where neither buyers nor sellers are favoured.

The surge in prices observed in recent years has enhanced the appeal of the most affordable single-family homes, particularly properties selling for less than $150,000, which explains the greater demand for such homes. This trend will continue over the coming year, as less costly single-detached, semi-detached and row houses will be selling rapidly. At the other end of the spectrum, the expensive home segment (over $200,000) will be a seller's market.

Figure 2



Residential construction to slow down

In the Québec CMA, the slowdown that began in 2005 will continue in 2007 and 2008. More modest demographic growth, lower migration, less significant job creation and a greater choice of properties for sale will limit demand for new homes. In 2007, housing starts are expected to fall by 3 per cent, as foundations should be laid for 5,000 new dwellings. The decline will be slightly more pronounced in 2008, when construction should get under way on 4,300 homes (-14 per cent). Despite the anticipated decreases, it is important to specify that the starts levels will still be close to the annual average of around 4,300 units for the last ten years.

In 2007, all market segments will register decreases in activity, with the exception of the rental housing segment. The greatest drop will be recorded in the condominium segment (-42 per cent). This anticipated decline will result from the fact that the resale market is already balanced for condominiums and that the upscale segment is showing signs of saturation. The construction of freehold homes[3] will show a less marked decrease (-6 per cent), as the resale market remains tight in the lower price ranges and, even though demand is strong, activity will be limited by the scarcity of available lots in the Québec CMA. Rental starts, for their part, will increase by 37 per cent in 2007, mainly as a result of the construction of retirement housing.

In 2008, housing starts will fall in all market segments, except for the condominium segment. In fact, freehold home building will decrease by 9 per cent, condominium activity will increase by 17 per cent and rental housing construction will fall by 33 per cent. Rental housing starts will be harder hit, mainly on account of the easing of the rental market. The rise in the vacancy rate, which began in 2003, will continue, which will show a less significant demand for rental housing.

Rental market to keep easing

The rental market will continue the easing trend that began in 2003. The vacancy rate will reach 1.9 per cent in 2007 and then 2.3 per cent in 2008, as demand will weaken. This rise in the vacancy rate will be attributable to slightly lower migration than in recent years and declining household formation among young people (aged from 15 to 34 years). That being said, there will still be a split between the affordable and luxury unit segments. The former will remain tight, with a lower vacancy rate, demonstrating a continued strong demand for such dwellings, while the latter will experience a slight surplus, which will be gradually absorbed over the course of 2008.

In 2007, the adoption of the new assessment roll could lead to a greater increase in the average rent, given that this additional expense is one of the few that landlords can fully pass on to their tenants. Many landlords will certainly be applying this measure this year. The average rent for two-bedroom units will rise by 2 to 3 per cent in 2007. The increase will be less pronounced in 2008 (+1.5 per cent), as the vacancy rate will edge up, which will ease the upward pressure on the average rent.

[3] Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

Forecast Summary Québec CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	6,258	7,045	6,980	7,400	6.0	7,550	2.0
MLS® Active Listings (annual average)	2,612	3,181	3,547	3,700	4.3	4,100	10.8
MLS® Average Price ($)	139,791	151,660	160,508	172,500	7.5	181,125	5.0
New Home Market							
Starts:							
Single-Detached	2,704	2,528	2,226	2,150	-3.4	1,900	-11.6
Multiples	3,482	3,307	2,950	2,850	-3.4	2,400	-15.8
Starts - Total	6,186	5,835	5,176	5,000	-3.4	4,300	-14.0
Average Price ($):							
Single-Detached	187,395	210,243	207,227	228,000	10.0%	245,000	7.5%
New Housing Price Index (% chg.)	6.1	4.3	5.2	4.5	_	4.0	_
Rental Market							
October Vacancy Rate (%)	1.1	1.4	1.5	1.9	_	2.3	_
Two-bedroom Average Rent (October) ($)	596	621	637	650	2.0	660	1.5
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	363,400	377,600	376,600	380,500	1.0	384,500	1.1
Employment Growth (%)	1.0	3.9	-0.3	1.0	_	1.1	_
Unemployment rate (%)	5.8	5.6	5.2	5.0	_	5.5	_
Net Migration	4,546	2,327	4,249	3,500	-17.6	3,000	-14.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Chambre Immobilière de Québec
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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